

Sunset Public Hearing
STATE TRUST OF TENNESSEE
Created by Section 9-4-801, *Tennessee Code Annotated*
(Sunset Termination Date June 2017)

1. Provide a brief introduction to the trust, including information about its purpose, statutory duties, staff, and administrative attachment.

The State Trust of Tennessee (the Trust) is a not-for-profit corporation chartered in the state of Tennessee on April 20, 1979. The Trust began operations in December, 1980 and over its history has enabled the Treasury Department to gain limited access to the Federal Reserve Bank's Funds Wire and Securities Transfer System, Automated Clearing House (ACH) and check processing services, which have been used to send, receive, transfer and control funds movement, as well as clear and control warrants and checks issued by the State expediently and less expensively under the Treasurer's management.

2. Provide a list of current members of the trust's board of directors and describe how membership complies with Section 9-4-806, *Tennessee Code Annotated*.

The State Treasurer, Comptroller of the Treasury, Secretary of State, Commissioner of Financial Institutions and Commissioner of Finance and Administration serve as directors of the Trust. The State Treasurer serves as chairperson of the Board.

3. How many times did the board of directors meet in fiscal years 2015 and to date in fiscal year 2016? How many members were present at each meeting?

The board of directors of the Trust met one time during Fiscal Year 2015, having four (4) members present, and one time during Fiscal Year 2016, having three (3) members present.

4. What per diem or travel reimbursement do members receive? How much was paid to trust members during fiscal year 2015 and to date in fiscal year 2016?

No per diem expenses were paid during fiscal years 2015 and 2016.

5. What per diem or travel reimbursement do board members receive? How much was paid to members during fiscal years 2015 and to date in fiscal year 2016?

No per diem expenses were paid during fiscal years 2015 and 2016.

6. What policies does the trust have in place to address potential conflict of interest by trust members and staff?

Upon appointment, each Board member by virtue of their position is required to file a disclosure statement of conflict of interests, and as necessary file amended statements with the Tennessee Ethics Commission in accordance with *Tennessee Code Annotated*, Section 8-50-501.

The Treasury Department has established a *Standards of Professional Conduct* for all Treasury employees, including those employees serving as officers and staff to the State Trust of Tennessee. The *Standards* include provisions prohibiting employees from having direct or indirect financial interests that conflict, or appears to conflict, with his or her government duties or responsibilities.

The Treasury investment staff must adhere to an additional *Code of Ethics and Standards of Professional Conduct* relative to their role of investing the assets of the Treasury, including initiating investment transactions through the State Trust of Tennessee. Investment staff members are required to make monthly and annual disclosure statements.

In addition, the Treasury Department's Mission and Vision Statements, and its Core Values emphasize the elements of honesty and faithful stewardship of the State's financial and human resources.

7. Can the trust promulgate rules? If no, is rulemaking authority needed? If rules have been promulgated, please cite the reference.

Yes, *Tennessee Code Annotated*, Section 9-4-803 (3) provides that the Trust may "adopt and amend bylaws, rules and regulations for carrying out the purposes" for which it was created. The Board has adopted bylaws but has not promulgated any rules and regulations.

8. What reports does the trust prepare on its operations, activities, and accomplishments and who receives these reports?

An annual report summarizing the Trust operations is presented to the State Trust Board. Information regarding the State Trust of Tennessee is also included in the State Cash Management section of the annual Treasurer's Report.

9. Is the trust subject to Sunshine law requirement (Section 8-44-101 et seq.) for public notice of meetings, prompt and full recording of minutes, and public access to minutes? If so, what procedures does the trust have for informing the public of its meetings and making its minutes available to the public?

Yes, the Trust is subject to the Sunshine law requirement. Board meetings are open to the public, and public notices of all meetings are posted in the State Capitol Complex and online. Minutes of the meetings are open to public inspection

10. Describe the relationship between the State of Tennessee, the State Trust, and the Federal Reserve Bank. What was the dollar value of transactions the trust conducted with the Federal Reserve Bank during fiscal year 2015 and to date in fiscal year 2016? What was the cost of those transactions?

The Trust was created by statute as an instrumentality of the State for the purpose of securing services directly from the Federal Reserve System. Accordingly, the Trust had accounts with the Federal Reserve Bank through which, the State conducted its business. Due to subsequent Federal Reserve policies restricting access to its services to state-owned trust companies, operating regulations and settlement timeframes implemented over time, the State Trust was forced to close its bank account with the Federal Reserve Bank in September, 2008. As a result, Treasury has moved all of the services except check clearing and related image services to its contract with a commercial bank.

During fiscal year 2015 the State Trust cleared over 953,000 warrants and checks representing a total amount of approximately \$1.7 billion through the Federal Reserve Bank. During the period of July 1, 2015 through April 30, 2016, the State Trust has cleared nearly 753,000 warrants and checks representing a total amount of \$1.5 billion.

The banking and internal support costs for clearing checks through the State Trust of Tennessee is approximately \$.09 per item, or approximately \$80,000 per year at current volumes.

11. Describe the benefits the state has received (both monetary and otherwise) from the creation of the trust and from access to the Federal Reserve's wire transfer system.

The State Trust of Tennessee has provided the State with the organizational structure necessary to gain direct access to the services of the Federal Reserve Bank, including funds and securities transfer services, ACH settlement and check clearing services. This direct access to services has allowed the State to operate more efficiently and to realize dramatic savings in banking fees for these services.

12. Describe any items related to the trust that require legislative attention and your proposed legislative changes.

None.

13. Should the trust be continued? To what extent and in what ways would the absence of the trust affect the public health, safety, or welfare?

It is the Treasury Department's recommendation that the State Trust of Tennessee not be continued. As stated in the State Trust of Tennessee By-Laws, "The primary goal of the Trust is to provide an organizational vehicle that can qualify for services from the Federal Reserve System and thus acquire access to its wire system." In addition, upon incorporation, the Charter of the State Trust of Tennessee provided that its authority would become null and void in the event that it was unable to achieve access to the Federal Reserve Wire Transfer System.

Check clearing and image presentment is the sole remaining service that the State Trust obtains through the Federal Reserve Bank. Due to the growth of electronic image exchange and other payment technologies, along with the State's decreasing volume of checks, there is little to no savings provided in obtaining such services from the Federal Reserve Bank and separating them from other banking services. While the Federal Reserve Bank offers check clearing services to all states, it is the department's intent to include check clearing and image presentment services to its upcoming Request for Proposals (RFP) for commercial banking services effective January 1, 2017, along with the other services previously obtained at the FRB.

Absence of the trust would not affect the public health, safety or welfare.

Performance Measures

14. Has the trust's board developed and implemented quantitative performance measures for ensuring it is meeting its goals? (Please answer either yes or no). If measures have been developed and implemented quantitative performance measures, answer questions 15 through 22.

No.

15. What are your key performance measures for ensuring the trust is meeting its goals? Describe so that someone unfamiliar with the program can understand what you are trying to measure and why it is important to the operation of your program.

16. What aspect[s] of the program are you measuring?

17. Who collects relevant data and how is this data collected (e.g., what types information systems and/or software programs are used) and how often is the data collected? List the specific resources (e.g., report, other document, database, customer survey) of the raw data used for the performance measure.
18. How is the actual performance measure calculated? If a specific mathematical formula is used, provide it. If possible, provide the calculations and supporting documentation detailing your process for arriving at the actual performance measure.
19. Is the reported performance measure result a real number or an estimate? If an estimate, explain why it is necessary to use an estimate. If an estimate, is the performance measure result recalculated, revised, and formally reported once the data for an actual calculation is available?
20. Who reviews the performance measures and associated data/calculations? Describe any process to verify that the measure and calculations are appropriate and accurate.
21. Are there written procedures related to collecting the data or calculating and reviewing/verifying the performance measure? Provide copies of any procedures.
22. Describe any concerns about the trust's performance measures and any changes or improvements you think need to be made in the process.

